

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC 20554

In the Matter of

Stale or Moot Docketed Proceedings

1993 Annual Access Tariff Filings  
Phase I

CC Docket No. 93-193

1994 Annual Access Tariff Filings

CC Docket No. 94-65

AT&T Communications Tariff F.C.C.  
Nos. 1 and 2, Transmittal Nos. 5460, 5461,  
5462, and 5464 Phase II

CC Docket No. 93-193

Bell Atlantic Telephone Companies Tariff  
FCC No. 1, Transmittal No. 690

CC Docket No. 94-157

NYNEX Telephone Companies Tariff  
FCC No. 1, Transmittal No. 328

**DIRECT CASE OF VERIZON**

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**CONTENTS**

**I. INTRODUCTION AND SUMMARY..... 1**

**II. BACKGROUND..... 2**

**III. OPEB COSTS INCURRED PRIOR TO JANUARY 1, 1993 ARE  
AS ELIGIBLE FOR EXOGENOUS TREATMENT AS OPEB  
COSTS INCURRED AFTER THAT DATE. .... 8**

**IV. THE COMMISSION SHOULD TERMINATE THIS  
INVESTIGATION..... 13**

**V. THE RECORD DEMONSTRATES THAT VERIZON’S  
EXOGENOUS COST ADJUSTMENTS FOR OPEB COSTS ARE  
CONSISTENT WITH THE COMMISSION’S RULES. .... 14**

**CONCLUSION..... 16**

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**DIRECT CASE OF VERIZON<sup>1</sup>**

**I. Introduction and Summary.**

In this Direct Case, Verizon demonstrates that its implementation of the change in accounting treatment for certain costs related to other post-employment employee benefits (“OPEB”) prior to 1993 was fully consistent with the rules then in effect and that the resulting

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<sup>1</sup> The Verizon telephone companies (“Verizon”) are the affiliated local telephone companies of Verizon Communications Inc. These companies are listed in Attachment A.

increase in interstate costs was eligible for exogenous treatment.<sup>2</sup> The fact that Verizon South implemented this change prior to the last possible date for compliance while other carriers did not is irrelevant. The Commission's rules treated such accounting changes as beyond Verizon's "control" and therefore eligible for exogenous treatment under price caps when the accounting change was adopted by the Financial Accounting Standards Board ("FASB") and approved by the Commission. The D.C. Circuit has already rejected the Commission's attempt to add an additional test concerning the carrier's "control" over the costs that are incurred as a result of the accounting change. In addition, the Common Carrier Bureau's order required the carriers to implement the change "on or before January 1, 1993," not "on January 1, 1993" or "no earlier than January 1, 1993." In fact, the Bureau specifically noted that "earlier implementation is encouraged." Accordingly, the OPEB costs that Verizon booked prior to January 1, 1993 are as eligible for exogenous treatment as costs incurred after that time.

## II. Background

In December 1990, "FASB" adopted SFAS 106, which requires companies that follow generally accepted accounting principles ("GAAP") to account for the costs of OPEBs on an accrual basis. *See* Attachment B. Previously, Verizon and other telecommunications carriers accounted for OPEB costs on a "pay-as-you-go" basis, recognizing expenses as they were paid to retired employees in the current accounting period. FASB determined that defined postretirement benefit plans, such as health, dental care, and life insurance, represent a form of deferred

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<sup>2</sup> In filing this Direct Case, Verizon does not waive its argument, as set forth in its Petition for Reconsideration, that the Wireline Competition Bureau's order reinstating this investigation is unlawful. *See Stale or Moot Docketed Proceedings*, CC Docket Nos. 93-193, 94-65, 94-157, Verizon Petition for Reconsideration (filed Mar. 27, 2003).

compensation for which the employer incurs a current obligation and which a company using accrual accounting must recognize as an expense during the years in which the employee earns the benefits rather than during the years when the company actually pays the benefits. SFAS 106 became mandatory for fiscal years beginning after December 15, 1992, but earlier application was encouraged. *See id.*, ¶ 108.

At issue here is the exogenous treatment of a subset of OPEB costs, the “transitional benefit obligation (“TBO”). The TBO represents the amount of OPEB costs for retirees and active employees that are not funded as of the date that a company implements SFAS 106. This is equivalent to the amount that the company would have had on its books if it had been accounting for OPEB costs under SFAS 106 all along. SFAS 106 allows companies to recognize the TBO as an immediate expense or to amortize it over the average remaining service years of plan participants. In their 1993 annual access tariff filings, Verizon and other price cap local exchange carriers included exogenous cost adjustments for the TBO portion of their amortized accruals for OPEB costs. This followed a court decision that overturned a prior Commission order which had denied the carriers’ initial 1992 tariffs seeking exogenous treatment of both the TBO portion and the ongoing OPEB costs.

Since 1985, the Commission has followed a policy of conforming regulatory accounting to GAAP, including new FASB standards, where it has found that such changes were consistent with regulatory policy. *See* 47 C.F.R. § 32.16(a). A new FASB standard takes effect 90 days after a company informs the Commission that it intends to follow the standard, unless the Commission notifies the company to the contrary. *See id.* In 1991, GTE and Southwestern Bell, pursuant to Section 32.16, filed notices of intent to adopt SFAS 106. In an order released December 26,

1991, the Common Carrier Bureau, acting under delegated authority, determined that adoption of SFAS 106 for regulatory accounting purposes would not conflict with the Commission's regulatory objectives. *See Southwestern Bell, GTE Service Corporation, Notification of Intent to Adopt Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions*, 6 FCC Rcd 7560, ¶ 3 (1991) ("OPEB Adoption Order"). Accordingly, it authorized *all* carriers to implement SFAS 106 "on or before January 1, 1993," noting that FASB stated that "earlier implementation is encouraged." *See id.*, ¶¶ 2, 3. In addition, it directed all carriers to defer and amortize the TBO portion over a period of 20 years or more, depending on the average remaining service period of active plan participants. *See id.*, ¶ 4.

In response to that order, Verizon<sup>3</sup> notified the Commission on December 31, 1991 of its intention to adopt SFAS 106 effective January 1, 1991. *See* Letter to Kenneth D. Moran, Chief, Accounting and Audits Division, Common Carrier Bureau (Dec. 31, 1991). Verizon took this action because its books of account were still open for calendar year 1991 when the Bureau issued its order and because both the order and FASB had encouraged early implementation. Accordingly, Verizon implemented SFAS 106 before it closed the books for 1991.

On February 28, 1992, Verizon filed tariff revisions to recover the costs of implementing SFAS 106 from January 1, 1991 through June 30, 1993 as an exogenous adjustment under price caps. *See* Bell Atlantic Telephone Companies, Tariff FCC No. 1, Transmittal No. 497,

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<sup>3</sup> Although other local exchange companies that are now part of Verizon filed exogenous cost adjustments at various times, the following discussion refers to "Verizon" as the local exchange companies of the former Bell Atlantic Corporation before its successive mergers with NYNEX and GTE.

Description and Justification, Section 1.3 (filed Feb. 28, 1992). The Bureau issued an order suspending and investigating Verizon's tariff as well as similar tariffs filed by other local exchange carriers. *See Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards, "Employers Accounting for Postretirement Benefits Other Than Pensions,"* 7 FCC Rcd 2724 (1992).

On January 22, 1993, the Commission released an order denying the carriers' requests for exogenous treatment of OPEB costs and terminating the investigation. *See Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards, "Employers Accounting for Postretirement Benefits Other Than Pensions,"* 8 FCC Rcd 1024 (1993) ("OPEB Order"). The Commission stated that its price cap rules at that time incorporated a two-part test for exogenous treatment of changes in accounting rules; (1) the costs must not be within the carrier's control; and (2) the costs must not be reflected in the price cap formula (*e.g.*, not double-counted in the inflation factor). *See id.*, ¶ 52. The Commission found that "no party disputes that the change to accrual accounting [for OPEB costs] by FASB was not within the carriers' control," because the Bureau had issued an order approving adoption of SFAS 106, but that the issue was whether the "carriers can control the *effects* of this change." *Id.*, ¶ 53 (emphasis supplied). The Commission found that no OPEB cost changes were eligible for exogenous treatment because the local exchange carriers had not demonstrated that any of the ongoing costs were beyond their control. *See id.*, ¶¶ 53-59. The Commission found that it was less clear whether TBO costs were beyond the carriers' control, and it allowed the carriers to seek exogenous cost treatment of TBO amounts in the next annual access tariff filing. *See id.*, ¶ 76. In making these findings, the Commission did not distinguish between costs associated with implementation of SFAS 106 prior to January 1, 1993 and costs incurred after that time. In

response, Verizon filed tariff revisions in the 1993 annual access tariff proceeding seeking recovery of the TBO portion of its OPEB costs, again including costs incurred prior to January 1, 1993.

On appeal, the Court reversed the *OPEB Order*, finding that Commission's then existing rule for exogenous treatment of a GAAP accounting change treated it as inherently beyond the control of the carriers once FASB has actually adopted the change and the Commission approved it. *See Southwestern Bell Telephone Company v. FCC*, 28 F.3d 165, 168 (D.C. Cir. 1994). The Court noted that in the orders adopting price caps, the Commission had stated that "there is no difference in principle between a cost change caused by a USOA change and a cost change caused by a GAAP change." *Id.* at 170; *see also Policy and Rules Concerning Rates for Dominant Carriers*, 4 FC Rcd 2873, ¶ 295 (1989). A USOA change was treated as exogenous regardless of how much control the carrier had over the underlying costs affected by the change, and the same rule applied to GAAP changes. The Court therefore rejected the Commission's addition of a test of whether the carriers "exercise substantial control over the level and timing of OPEB expenses," finding that "[t]here simply is not a hint of such a control test in the Commission's discussion of accounting changes in either the LEC Price Cap Order or the LEC Price Cap Reconsideration." *Southwestern Bell*, 28 F.3d at 169. Accordingly, the Commission vacated the *OPEB Order*, and it recognized that the Court's decision required that OPEB costs be afforded exogenous treatment under the then-existing rules. *See, e.g., Treatment of Local Exchange Carrier Tariffs Implementing Statement of Financial Accounting Standards, "Employers Accounting for Postretirement Benefits Other Than Pensions,"* 10 FCC Rcd 11821 (1995); *NYNEX Telephone Companies Tariff FCC No. 1, Transmittal No. 374*, 10 FCC Rcd 8689, ¶ 3 (1995) ("it is clear

that after the Southwestern Bell decision, *supra*, changes in LEC OPEB costs caused by implementation of SFAS-106 are eligible for exogenous treatment . . .”).

In the *Combined OPEB Investigations Order*, the Bureau consolidated various pending investigations of OPEB tariffs into Docket No. 94-157 and it designated certain issues for investigation, including whether exogenous treatment should be permitted for OPEB costs incurred prior to January 1, 1993. *See 1993 Annual Access Tariff Filings; 1994 Annual Access Tariff Filings; AT&T Communications, Tariff FCC Nos. 1 and 2, Transmittal Nos. 5460, 5461, 5462, and 5464; Bell Atlantic Telephone Companies, Tariff FCC No. 1, Transmittal No. 690; NYNEX Telephone Companies, Tariff FCC No. 1, Transmittal No. 328, 10 FCC Rcd 11804 (1995) (“Combined OPEB Investigations Order”)*. In response to that order, Verizon filed a Direct Case demonstrating that costs incurred prior to January 1, 1993 qualified for exogenous treatment under the Price Cap rules. Although the Commission terminated this investigation in 2002 without objection from any party, the Bureau reinstated the investigation in its *OPEB Reinstatement Order* in response to an *ex parte* filing by AT&T. *See Stale or Moot Docketed Proceedings, Order, Notice, and Erratum*, CC Docket Nos. 93-193, 94-65 and 94-157, DA 03-488, ¶¶ 21-22 (rel. Feb. 25, 2003) (“*OPEB Reinstatement Order*”).

On March 27, 2003, Verizon filed a Petition for Reconsideration of the *OPEB Reinstatement Order* in which it demonstrated that the order exceeded the Commission’s statutory authority because the order was issued long after the period for reconsideration and review. Without waiving its position that the order is unlawful and should be set aside, Verizon hereby responds to the Bureau’s requirement that Verizon file a new Direct Case demonstrating

why OPEB costs incurred prior to January 1, 1993 are eligible for exogenous treatment. *See OPEB Reinstatement Order*, ¶ 23.

### **III. OPEB Costs Incurred Prior To January 1, 1993 Are As Eligible For Exogenous Treatment As OPEB Costs Incurred After That Date.**

OPEB costs incurred prior to the deadline for adoption of SFAS 106 on January 1, 1993 are as eligible for exogenous treatment as OPEB costs incurred after that date. *See* Docket No. 94-157, Bell Atlantic Direct Case, Tab B (filed Aug. 14, 1995) (attached as Exhibit A). As the Court made clear, both USOA and GAAP changes meet the test of being beyond the carrier's control if they are approved by the Commission;

the Commission meant for the “control” test to be satisfied simply by the fact of exogenous imposition of the accounting rule, without concern for the underlying costs covered by the rule . . . . The fact that a USOA change is adopted by the Commission obviously tells us nothing about how much or little the carrier may control the cost that is to be accounted for differently. Thus, the Commission's view that the two types of accounting change [USOA and GAAP] were “no different in principle” confirms the natural meaning of the rest of the language: an FASB change adopted by the Commission is not a change under the control of the carrier, and, once mandated by the Commission, the change satisfies the control criterion.<sup>4</sup>

The only difference between a USOA change and a GAAP change is that the latter is mandatory only after the carrier files a notice of its intent to adopt the change and if the Commission does not disapprove within 90 days of the notice. *See* 47 C.F.R. § 32.16. In either case, the date that the carrier complies with the accounting change is irrelevant – the control standard is met if the Commission approves the accounting change. The Commission cannot add an additional test of whether the carrier had “control” over the timing of its compliance with the accounting change. In *Southwestern Bell*, the Court already rejected one attempt by the

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<sup>4</sup> *See Southwestern Bell*, 28 F.3d at 170.

Commission to add an additional test for exogenous treatment of an accounting change. It rejected the Commission's addition of a test of whether the carrier could exercise "substantial control over the level and timing of OPEB expenses," finding that "[t]here simply is not a hint of such a control test in the Commission's discussion of accounting changes." *Southwestern Bell*, 28 F.3d at 169. For the same reasons, the Commission cannot add a new test here of whether the carrier could have delayed implementation of SFAS 106 to a later time.

In this case, there cannot be any question that the timing of a carrier's compliance is irrelevant, because the Bureau's order approving adoption of SFAS 106 specifically directed *all* carriers to adopt it "on or before January 1, 1993." *OPEB Adoption Order*, ¶ 3. The Bureau did not say "on" or "no earlier" than January 1, 1993. In fact, the Bureau emphasized that "earlier implementation is encouraged." *See id.*, ¶ 2. This was consistent with FASB's belief that a failure to recognize OPEB obligations to employees as current liabilities would understate the company's accrued costs;

The Board believes that measurement of the obligation and accrual of the cost based on best estimates are superior to implying, by a failure to accrue, that no obligation exists prior to the payment of benefits. The Board believes that failure to recognize an obligation prior to its payment impairs the usefulness and integrity of the employer's financial reporting.<sup>5</sup>

Any reasonable carrier would conclude from FASB's instructions and from the Bureau's order approving SFAS 106 that it was advisable to implement SFAS 106 as soon as possible. Neither the Bureau's order, nor the Commission's subsequent order allowing the carriers to submit tariffs seeking exogenous adjustments for TBO OPEB costs, indicated that costs of

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<sup>5</sup> Attachment B, p. 2; *see also* Summary of Statement No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions (issued 12/90), *available at*: <http://www.fasb.org/st/summary/stsum106.shtml>.

complying with SFAS 106 prior to January 1, 1993 would be treated differently. Having encouraged carriers to adopt SFAS 106 earlier than the deadline, it would be arbitrary and capricious to disallow exogenous treatment of costs incurred by a carrier who complied prior to the deadline.

Adoption of SFAS 106 was “mandatory” and beyond a carrier’s control regardless of whether the carrier adopted it “on” January 1, 1993 or “before” that time. When the law establishes a deadline, compliance prior to the deadline is no less mandatory than compliance at the last minute. It would be absurd to consider a federal tax return filed on April 1 to be voluntary simply because the filer did not wait until midnight of April 15. Similarly, Verizon’s compliance with the Bureau order mandating implementation of SFAS 106 cannot be considered voluntary if done prior to January 1, 1993, but involuntary on that date.

As AT&T itself has acknowledged, earlier adoption of SFAS 106 can reduce a carrier’s OPEB expenses. *See American Telephone and Telegraph Company, Revisions to Tariff FCC Nos. 1, 2, and 13, Transmittal No. 2304, 5 FCC Rcd 3680, ¶ 2 (1990)*. In addition, adoption also starts the 20-year amortization of the TBO portion that the Commission required in the *OPEB Adoption Order*. *See OPEB Adoption Order, ¶ 4* (requiring amortization over 20 years or the average remaining service period of active plan participants). By starting the amortization earlier, Verizon moved forward the date when the amortization period would end and Verizon would have to remove the TBO costs from its price cap indexes.

Nor is it relevant that Verizon sought recovery of its 1991 and 1992 OPEB costs in the 1993 Annual Access Tariff Filing. Long before, on December 31, 1991, Verizon informed the Commission of its intention to adopt FASB 106 starting with calendar year 1991. The only

reason it filed the exogenous costs at issue here in 1993 is because the Commission had rejected the 1992 filings, for reasons that the Court found unlawful. The courts have held that an agency has both the authority and the obligation to correct the effects of a decision that is found unlawful and reversed on appeal. *See, e.g., United Gas Improvement Co. v. Callery*, 382 U.S. 223, 229 (1965) (“An agency, like a court, can undo what is wrongfully done by virtue of its order” that is overturned on appeal); *National Gas Clearinghouse v. FERC*, 965 F.2d 1066, 1074 (D.C. Cir. 1992) (“this court has already recognized that the FERC’s predecessor agency had authority to order retroactive rate adjustments when its earlier order reversed on appeal improperly disallowed a higher rate”); *Public Utilities Commission of the State of California v. FERC*, 988 F.2d 154, 162 (D.C. Cir. 1993) (“This court has previously recognized FERC’s authority to order retroactive rate adjustments when its earlier order disallowing a rate is reversed on appeal”). The Commission cannot deny Verizon the opportunity to recover its OPEB costs due to a delay caused by the Commission’s own error.

In any event, the Commission’s price cap rules do not limit exogenous cost adjustments to the costs incurred during the period that tariff revisions are effective. For instance, the Commission required the carriers to implement thousands-block number pooling by March 2002, but it permitted them to recover costs of this effort through exogenous cost changes over a two-year period starting on July 1, 2002, long after the costs were incurred. *See Numbering Resource Optimization*, 17 FCC Rcd 252, ¶¶ 11, 41 (2001). *See also Communications Vending Corporation of Arizona, Inc., et al., Complainants, v. Citizens Communications Company f/k/a Citizens Utilities Company and Citizens Telecommunications Company d/b/a Citizens Telecom, et al., Defendants*, File Nos. EB-02-MD-018--030, FCC 02-314, 2002 FCC LEXIS 6130, ¶ 38 (rel. Nov. 19, 2002) (price cap carriers may recover end user charges refunded to payphone

providers through exogenous cost adjustments in later periods). In fact, the Commission has already recognized that carriers may recover OPEB costs incurred in periods prior to the period that the tariff is effective. For example, the Bureau initially rejected NYNEX's recovery of a "catch-up" of 1993 and 1994 OPEB costs in the 1995 Annual Access Tariff proceeding, finding that it violated the 1995 rule change that required the carriers to remove their OPEB costs from their price cap indexes. *See 1995 Annual Access Tariff Filings of Price Cap Carriers*, 11 FCC Rcd 5461, ¶ 10 (1995). However, in response to a petition for stay that NYNEX filed with the Court, the Bureau issued a revision allowing the "catch-up" amounts to be recovered pending the investigation of OPEB costs in Docket 94-157. *See 1995 Annual Access Tariff Filings of Price Cap Carrier*, 10 FCC Rcd 10860, ¶ 3 (1995).

In the *ex parte* presentation that prompted this renewed investigation, AT&T argued that OPEB costs incurred prior to January 1, 1993 are not eligible for exogenous treatment because the Bureau issued an order in 1990 rejecting AT&T's own request for exogenous treatment of OPEB costs.<sup>6</sup> In fact, that precedent supports Verizon's position here. It merely highlights that, unlike AT&T, Verizon's implementation of SFAS 106 was done only *after* that change had been adopted by FASB and by the Commission. AT&T had jumped the gun by beginning to accrue OPEB costs in 1990, *before* FASB adopted SFAS 106. It filed tariffs to recognize this accrual as an exogenous adjustment to its price cap rates on May 17, 1990, seven months prior to the date that FASB adopted SFAS 106. *See American Telephone and Telegraph Company, Revisions to Tariff FCC Nos. 1, 2, and 13, Transmittal No. 2304*, 5 FCC Rcd 3680, ¶ 2 (1990). The Bureau properly found that "[a]lthough the accounting change that AT&T seeks to claim as exogenous

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<sup>6</sup> *See* Letter from Patrick H. Merrick, AT&T Federal Government Affairs, to Marlene H. Dortch, Secretary, FCC, CC Docket No. 93-193 (filed Oct. 23, 2002).

will probably be mandated by FASB in 1992, and at that time qualify for exogenous treatment, AT&T's decision to implement this change before any change is mandated by FASB or this Commission's accounting rules does not result in a cost change that can be treated as exogenous . . . .” *Id.*, ¶ 4. The Bureau reminded AT&T that carriers may make accounting changes to implement changes in GAAP only *after* they are approved by FASB and only after they are approved by the Commission as being compatible with regulatory needs. *See id.*, fn. 5, *citing* 47 C.F.R. § 32.16(a). Neither had happened when AT&T filed its first OPEB tariffs. Accordingly, the Bureau rejected the tariff filing rather than investigating it, because it was *per se* unlawful. In contrast, Verizon filed its OPEB tariffs only after SFAS 106 had been adopted by FASB and approved by the Commission.<sup>7</sup>

#### **IV. The Commission Should Terminate This Investigation.**

For many of the same reasons set forth in Verizon's April 8, 2003 Comments, the Commission should terminate this investigation without ordering Verizon to make refunds regarding the 1991 and 1992 OPEB costs that it recovered in its 1993 access tariffs. *See* Verizon Comments, 11-13 (filed Apr. 8, 2003). Most importantly, as Verizon demonstrated in its March 27 Petition for Reconsideration of the *OPEB Reinstatement Order*, these consolidated investigations were terminated in the *Termination Order*, and the Bureau did not have the authority to “correct” that order long after the period for seeking review has expired. *See Stale*

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<sup>7</sup> In July 1993, AT&T filed tariffs to recover the changes in rates implemented by the local exchange carriers in their 1993 annual access tariff filings as well as exogenous cost changes for its own TBO OPEB costs. The Bureau did not reject that tariff filing. Rather, the Bureau instituted an investigation and incorporated it into the pending investigation of the local exchange carriers' OPEB tariffs. *See AT&T Communications Tariff FCC Nos. 1 and 2, Transmittal Nos. 5460, 5461, 5462, and 5464*, 8 FCC Rcd 6227 (1993).

*or Moot Docketed Proceedings*, CC Docket Nos. 93-193, 94-65, and 94-157, Verizon Petition for Reconsideration (filed Mar. 27, 2003). The Commission simply lacks statutory authority to reestablish these investigations or to order refunds. In addition, AT&T, the largest potential recipient of refunds in these investigations, would have to refund most of those amounts in turn to its own customers for these periods, since AT&T incorporated the local exchange carriers' exogenous cost increases for OPEB costs (plus its own OPEB costs) in its own 1993 tariff filings, which are also part of this investigation and subject to suspension and an accounting order. *See AT&T Communications, Tariff FCC Nos. 1 and 2, Transmittal Nos. 5460, 5461, 5462 and 5464, 8 FCC Rcd 6227 (1993)*. It is unlikely, despite the accounting order, that AT&T could identify the millions of customers from as much as ten years ago that would be entitled to these refunds, many of whom have since migrated to other carriers, including Verizon. Furthermore, the second largest recipient of potential refunds, WorldCom, is currently in bankruptcy, where it seeks to avoid a substantial portion of its debts from the pre-bankruptcy period. The rest of the interexchange carriers, who recovered Verizon's OPEB costs through their own long distance charges in 1993, also would be unjustly enriched if they were to obtain refunds at this late date.

## **V. The Record Demonstrates That Verizon's Exogenous Cost Adjustments For OPEB Costs Are Consistent With The Commission's Rules.**

The *OPEB Reinstatement Order* required Verizon to submit the studies upon which it relies to demonstrate that its OPEB costs incurred prior to January 1, 1993 are eligible for exogenous treatment and to identify the portions of its previous filings that are relevant, as well as those that are no longer relevant, and to state why. *See OPEB Reinstatement Order*, ¶ 23.

Attached are the following;

**Exhibit A.** Bell Atlantic Direct Case, filed August 14, 1995. In this filing, Verizon (then Bell Atlantic) responded to issues raised in the *Combined OPEB Investigations Order*. This filing provides studies demonstrating that Verizon's calculation of exogenous cost adjustments for OPEB costs is consistent with the Commission's rules.

**Exhibit B.** NYNEX Direct Case, filed August 14, 1995. In this filing, Verizon (then NYNEX) responded to issues raised in the *Combined OPEB Investigations Order*. This filing provides studies demonstrating that Verizon's calculation of exogenous cost adjustments for OPEB costs is consistent with the Commission's rules.

**Exhibit C.** GTE Direct Case, filed August 14, 1995. In this filing, Verizon (then GTE) responded to issues raised in the *Combined OPEB Investigations Order*. This filing provides studies demonstrating that Verizon's calculation of exogenous cost adjustments for OPEB costs is consistent with the Commission's rules.

**Exhibit D.** United States Telephone Association Direct Case, filed August 14, 1995. This filing provides the economic studies that Verizon relied upon to show that the OPEB costs are not double-counted in the GNP-PI inflation factor.

**Exhibit E.** Bell Atlantic Reply, filed September 28, 1995. This filing provides further demonstration that Verizon's exogenous cost adjustment is consistent with the Commission's rules, and it includes a declaration supporting Verizon's calculations.

**Exhibit F.** NYNEX Rebuttal, filed September 28, 1995. This filing provides further demonstration that Verizon's exogenous cost adjustment is consistent with the Commission's rules, and it contains a Supplemental Report by Peter J. Neuwirth and Andrew B. Abel demonstrating that OPEB costs are not double-counted in the GNP-PI inflation factor.

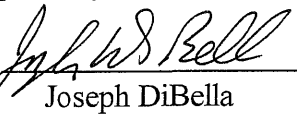
**Exhibit G.** GTE Rebuttal, filed September 28, 1995. This filing provides further demonstration that Verizon's exogenous cost adjustment is consistent with the Commission's rules, and it includes the Neuwirth and Abel Supplemental Report.

## Conclusion

Verizon's implementation of SFAS 106 "on or before" January 1, 1993 was mandated by the Commission's rules and therefore was beyond its control. For this reason, it qualifies for exogenous treatment under the price cap rules that applied at the time. The Commission should terminate this investigation.

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Dated: April 11, 2003

THE VERIZON TELEPHONE COMPANIES

The Verizon telephone companies are the local exchange carriers affiliated with Verizon Communications Inc. These are:

Contel of the South, Inc. d/b/a Verizon Mid-States  
GTE Midwest Incorporated d/b/a Verizon Midwest  
GTE Southwest Incorporated d/b/a Verizon Southwest  
The Micronesian Telecommunications Corporation  
Verizon California Inc.  
Verizon Delaware Inc.  
Verizon Florida Inc.  
Verizon Hawaii Inc.  
Verizon Maryland Inc.  
Verizon New England Inc.  
Verizon New Jersey Inc.  
Verizon New York Inc.  
Verizon North Inc.  
Verizon Northwest Inc.  
Verizon Pennsylvania Inc.  
Verizon South Inc.  
Verizon Virginia Inc.  
Verizon Washington, DC Inc.  
Verizon West Coast Inc.  
Verizon West Virginia Inc.